

XIX Internal Controls

Internal Control is a method under which duties are arranged and segregated to enable effective accounting control over assets, liabilities, revenues and expenditures. Duties are subdivided so that no single employee performs a complete cycle of operations. This reduces the opportunity for any single person to both commit and conceal errors or irregularities in the normal course of business. Separation of duties also increases the likelihood that unintentional errors will be discovered through reconciliations and other normal work activities.

An individual's assigned duties may differ greatly depending upon the size of the organization and the number of individuals available to perform the duties. Other factors that influence the assignment of duties and the internal control system may be such things as physical location, experience or competence of an employee and the attitude of the administrators.

Internal control is particularly critical in the area of cash receipts. See SAM 8080, 8080.1 and 8080.2 for guidelines. Areas discussed in the following paragraphs are preparing checks, disbursements (refunds), receiving cash, bank reconciliation and other responsibilities.

PREPARING CHECKS

The following guidelines should be observed when preparing checks.

- ✧ The person who prepares checks should not sign them.
- ✧ The person who signs checks should not have access to the blank check stock.
- ✧ The person who signs checks should do so only after comparing them with authorizations and supporting documents.
- ✧ The person who types manual checks should not distribute them.
- ✧ Persons who either enter a check batch into CALSTARS or control the printing of automated checks should not distribute them.
- ✧ If a check-signing machine is used, the check preparation person should not operate the check-signing machine. The signed checks should be compared with authorizations and supporting documents by a third person. The check signature plate(s) should be given the same custody and protection as cash.

- ✧ Make a daily comparison of the meter reading on the check signing machine and the log of checks signed by the machine. A full accountability of all checks used must be completed monthly.
- ✧ The person authorized to sign checks must refuse to sign:
 - Blank checks;
 - Checks made out to cash;
 - Checks made out to the check signer; or,
 - Checks made out to the check preparer.
- ✧ See SAM 8001.2 regarding authorized signatures and SAM 8041 regarding spoiled checks and signature requirements for large checks.

CASH DISBURSEMENTS

The following guidelines should be observed for cash disbursements.

- ✧ The person who authorizes or enters disbursement documents should not reconcile the resulting reports. (EXAMPLE: A person who enters a travel advance to CALSTARS should not reconcile the Revolving Fund.)
- ✧ A person preparing reports on goods received cannot process an invoice for payment for those goods.
- ✧ The person authorizing an invoice for payment cannot sign a check for the disbursement.

RECEIVING CASH

The following guidelines should be observed when receiving cash.

- ✧ The supervisor of the person depositing the cash should review the bank deposit slip and verify that all receipts are recorded.
- ✧ To properly transfer a cash change, cash purchase, or cash payments fund, both the old and new custodian must independently count the fund. A common receipt must be prepared. Both custodians must sign the receipt before presenting it to the Accounting Officer.
- ✧ Any person who handles cash and other valuables should take an annual vacation. His or her duties should be rotated among other office staff and affected accounts reconciled during their absence.
- ✧ A person who collects and prepares numbered receipt forms should not control the forms or have access to the numbering mechanism, if the forms are prepared locally.
- ✧ A person who prepares receivables cannot process cash receipts and vice versa.
- ✧ A person who prepares claim schedules cannot process cash receipts.

- ✧ Checks and money orders must be restrictively endorsed. Checks and negotiable instruments not payable to the agency must be logged in a prelisting when received through the mail. All cash must be delivered at least daily to another person. This person should perform an independent count and prepare a bank deposit.
- ✧ See SAM 8030.1, paragraphs 1-4 for guidelines on frequency of bank deposits.

BANK RECONCILIATION

The following guidelines should be observed for bank reconciliation.

- ✧ A person who signs checks cannot prepare the bank reconciliation.
- ✧ The person receiving and depositing cash should not do the bank reconciliation.
- ✧ A person who authorizes cash disbursements should not do the bank reconciliation.
- ✧ The sequence of check numbers must be verified when the bank reconciliation is prepared.
- ✧ The bank reconciliation must be reviewed by a second person. Both the preparer and the reviewer must sign and date the completed reconciliation.
- ✧ Aged outstanding checks need to be investigated regularly. The person who investigates aged checks should not be involved with the replenishment or reconciliation of the revolving fund or bank statement.

OTHER

The following guidelines should be observed for other money related activities.

- ✧ A person who receives and deposits remittances cannot enter the receipt information in CALSTARS.
- ✧ Except for vendor discounts, a person preparing claim schedules should not have authority to adjust vendor invoices or credit memos.
- ✧ Transactions entered in CALSTARS should be reconciled daily on Form CALSTARS 30, Daily Batch Reconciliation.
- ✧ The attendance timekeeper cannot distribute payroll warrants.
- ✧ See SAM 8020.1 and 8021 regarding prelisting and transfer receipts.
- ✧ See SAM 8024 for procedures for safe combinations.
- ✧ When a person leaves the accounting unit, action should be taken to change locks, safe access and signature authority. All changes of authority should be documented.

- ✧ When a person leaves the accounting unit, his/her supervisor should insure that any CALSTARS documents and reports in his/her possession are returned to the unit files.
- ✧ When a person with unique knowledge of the CALSTARS tables leaves the accounting unit, his/her supervisor should insure that adequate documentation is in the unit files.

CALSTARS ACCESS

The following guidelines should be observed regarding CALSTARS access.

- ✧ Only authorized users should have access to CALSTARS and access should be limited to areas that are necessary for the user to perform his duties. Additions or changes to personnel, job duties, and Security Table features will require a CALSTARS 95 to be completed for each affected user and entered into CALSTARS.
- ✧ For users who no longer need CALSTARS access or who leave their agency, the Agency Security Officer should **immediately** delete the user's access to CALSTARS. If there are any problems or questions regarding CALSTARS USERID deletions, contact the CALSTARS Security Supervisor at (916) 445-0211, extension 2858.
- ✧ To grant CALSTARS access to contract or temporary users, the Agency Security Officer must complete a CALSTARS 95 for entry into CALSTARS. When the contract or temporary user's period of service has ended, the Agency Security Officer must complete and enter a CALSTARS 95 to delete the user's CALSTARS USERID.
- ✧ To grant CALSTARS access to an Auditor, the Agency Security Officer must complete a CALSTARS 95 for entry into CALSTARS. The Auditor's access should be limited to areas that are necessary in order to perform the audit. The users should not have any indicators that will allow input or changes to CALSTARS data or tables. When the Auditor has completed his assignment, the Agency Security Officer must complete and enter a CALSTARS 95 to delete the Auditor's CALSTARS USERID.
- ✧ Backup Agency Security Officers can be appointed to perform agency security duties during the absence of the Agency Security Officer. For agencies that do not have backup Security Officers to process an immediate change or delete to a USERID, the agency should contact the CALSTARS Security Supervisor at (916) 445-0211, extension 2858.
- ✧ For management who do not perform accounting duties, but do review CALSTARS tables and data, access should be limited to view only access.

- ✱ The CALSTARS Security File By Name Report (CSI017-2) and Security Table Activity Log should be reviewed regularly by department management and Agency Security Officers to insure that only authorized users have access and that indicator values for users are set to limit the user to areas necessary to perform their duties. The CSI017-2 Report displays two CALSTARS users per page by Name, USERID, and security values for each indicator. The Security Table Activity Log displays any changes, adds, or deletes to CALSTARS USERIDs. Other reports available for review are the Security File By USERID Report (CSI017-1) and the Security File By Agency Report (CSI017-0). The CSI017-1 Report is similar to the CSI017-2 Report, except the CSI017-1 Report is sorted by USERID, and the CSI017-0 is displayed in a columnar format sorted by USERID.

COMPLIANCE WITH INTERNAL CONTROL

The Financial Integrity and State Manager's Accountability Act of 1983 requires that the head of each State agency establish and maintain an adequate system of internal control. It is recommended that a proposed distribution of duties be submitted to the department's director or his designee for review and approval. In addition, if the resources available to a department do not permit compliance with the separation of duties specified in SAM 8080, it is recommended that the department consider contracting with other agencies or the Department of General Services, Contracted Fiscal Services for accounting services.

SEPARATION OF DUTIES IN A SMALL AGENCY

Separation of duties is often a problem in small agencies. Exhibits XIX-1 through XIX-4 is examples of an acceptable separation of duties in the areas of cash disbursements control, cash receipts control, payroll control, and property/equipment control.

EXHIBIT XIX-1
SEPARATION OF DUTIES
CALSTARS AGENCY
CASH DISBURSEMENTS

DUTIES	Exec Director	Program Directors	Admin Assistant	Secretary	Accountant	Account Clerk	Program Staff
Approves purchases	X			N		N	
Approves disbursements		X		N	N	N	
Prepares or types checks	N		N	X ^{1/}		N	N
Compares checks with vouchers (invoices) when checks are signed	X						X
Manually signs checks if the amount is less than an established limit	X	X	N	N		N	X
Mails or distributes checks	N	N		N		X	N
Prepares and enters check batches						X	
Controls blank check stock	N	N	X	N	N	N	N
Maintains Petty Cash Fund				X			
Has access to safe	X				X		
Reconciles to SCO + misc.					X		
Reconciles CALSTARS Labor					X		
Does CALSTARS Table Maintenance					X	N	
Does CALSTARS Daily Batch Reconciliation						X	
Reconciles bank statement	N	N	N		X	N	N

X = Duty Assigned

N = Should not be assigned because of other duties

^{1/} Introduces a risk if performed with other duties.

EXHIBIT XIX-2
SEPARATION OF DUTIES
CALSTARS AGENCY
CASH RECEIPTS

DUTIES	Exec Director	Program Directors	Admin Assistant	Secretary	Accountant	Account Clerk	Program Staff
Opens mail and receives cash			N	X	N	N	
Prepares cash prelisting			N	X	N	N	
Receives counter collections			N	X	N	N	
Prepares receipt forms			N	X	N	N	
Prepares collection reports			N	X	N	N	
Restrictively endorses checks and prepares bank deposits			X	N	N	N	
Makes bank deposits			N			X	
Controls numbered receipt forms			X				
Compares prelisting and collection reports with deposits					X		
Prepares and enters cash receipts			N		N	X	
Reconciles bank statement	N	N	N		X	N	N

X = Duty Assigned

N = Should not be assigned because of other duties

EXHIBIT XIX-3
SEPARATION OF DUTIES
CALSTARS AGENCY
PAYROLL

DUTIES	Exec Director	Program Directors	Admin Assistant	Secretary	Accountant	Account Clerk	Program Staff
Maintains attendance reports			N	X			
Certifies payroll attendance reports		X	N				
Prepares payroll checks			N	X			
Signs payroll checks	X		N	N			
Receives or picks up payroll checks for unit distribution	N	N	X	N		N	N
Receives undistributed payroll checks from units for temporary safekeeping	N	N	X	N		N	N
Maintains Employee Master Table File			N		X	N	
Maintains vacation, sick leave and overtime accumulation records						X	
Signs reports of appointment and reports of separation	X						
Keys timesheets in Timesheet File					N	X	
Distributes payroll checks	N	N	X	N			N

X = Duty Assigned

N = Should not be assigned because of other duties

EXHIBIT XIX-4
SEPARATION OF DUTIES
CALSTARS AGENCY
PROPERTY AND EQUIPMENT

DUTIES	Exec Director	Program Directors	Admin Assistant	Secretary	Accountant	Account Clerk	Program Staff
Authorizes equipment purchases		X	N	N	N	N	
Orders equipment	N	N	N	X	N	N	
Receives incoming equipment	N	N	X	N	N	N	
Has custody of unassigned equipment					X		
Authorizes equipment disposal	X						
Disposes of surveyed equipment						X	
Develops entries to General Fixed Assets Group of Accounts					X	N	
Maintains property ledger			N	N		X	
Balances property ledger to General Fixed Assets Group of Accounts						X	
Takes physical inventory			N	X	N	N	
Reconciles physical inventory to perpetual inventory						X	

X = Duty Assigned

N = Should not be assigned because of other duties